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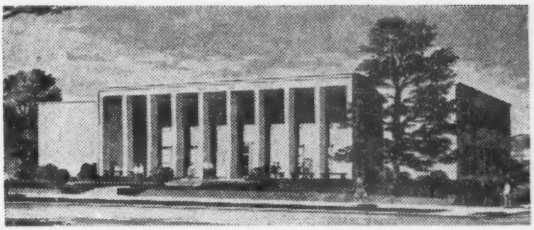

June, 1961
Forty-Eighth Issue

DEDICATION ADDRESS: MISSION OF THE CHRISTIAN BUSINESS MAN — W. R. White

PHILOSOPHY OF BUSINESS LAW — Wiley D. Rich

PROBLEMS IN REPORTING OF NON-PROFIT ORGANIZATIONS — Emerson O. Henke

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THE BAYLOR BULLETIN

Baylor Business Studies

FORTY-EIGHTH ISSUE

DEDICATION ADDRESS: THE MISSION OF THE CHRISTIAN BUSINESS MAN

by

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PHILOSOPHY OF BUSINESS LAW

by

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PROBLEMS IN REPORTING OF NON-PROFIT ORGANIZATIONS

by

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FOREWORD

The unique character of an institution of higher education derives, in part, from the viewpoints or philosophies of those persons comprising its administrative leadership and its teaching faculty. This fact seems a sufficient reason for publishing some statements that communicate these viewpoints. This issue of *Baylor Business Studies* presents an address of Dr. W. R. White, Chancellor and, until recently, President of Baylor University, and another by Dr. Wiley D. Rich, Professor of Business in the Hankamer School of Business.

Dr. White's address was delivered on the occasion of the dedication of the new Hankamer School of Business Building. His delineation of the role of the Christian business man has significant implications for the task of the church-related school of business.

Dr. Rich's address, delivered to a regional division of the American Business Law Association, shows the place of business law in western civilization. His statement, therefore, gives meaning to an important segment of the business school curriculum.

As a consultant for the American Institute of Certified Public Accountants, Dr. Emerson O. Henke, Professor of Accounting in the Hankamer School of Business, has been concerned with research on problems of reporting financial and operating data of non-profit organizations. He offers some of his preliminary conclusions in the final article of this issue.

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THE DEDICATION OF HANKAMER BUILDING

INTRODUCTION

Today we honor Mr. and Mrs. Earl Hankamer, Curtis, Raymond, Rubalee, and their families as chief benefactors in this great achievement. Along with them, the Kaysers, Caseys, Parkers, Jacksons and many others. All these are Christian families dedicated to Christian education.

THE MISSION OF THE CHRISTIAN BUSINESS MAN

The Christian business man is socially minded without being socialistic! He is efficient without being ruthless. He is thrifty without being materialistic. He seeks a profit without being penurious. He does not trust in uncertain riches, but in the living God who giveth us richly all things to enjoy. He is rich in good works. He is ready to distribute, willing to communicate. He lays up treasures in heaven by service on earth against the day of reckoning and thereby embraces life which is life indeed.

The Christian business man redeems capitalism. It has lost face both by abuse and slander. It has become popular in many intellectual and church circles to berate capitalism. It has been too frequently misrepresented. Russia has never tasted the real capitalism of the enlightened West. It has had Czaristic feudalism and communism. It has never had real freedom; it has had two forms of totalitarianism. In America, capitalism has produced a widely distributed prosperity within a framework of freedom. Capitalism like science can be good or bad, depending on how it is used. All things may be corrupted by perverse human nature. The best form of capitalism can be the best form of economics, if achieved by real Christian disciplines and motivations.

The Christian business man can redeem business ethics. We have been alarmed, recently, by flagrant violations of good ethics in both business and labor. Leaders in both business and labor have called for repentance and reform. In the small town where we were reared, a business man was our greatest teacher in staunch integrity. He was the very embodiment of good ethics and fair play. When the great Christian business man, John Wanamaker, died, his fellow business men, including his competitors, expressed their sense of loss in the daily papers, paying him priceless tributes.

Christian business men are, to large degree, the hope of the private church-related college. Out of some one thousand leading business and professional men of America, around seven hundred had their undergraduate work in church-related colleges. Churchmen laid the foundations of education in

America, both elementary and higher. The church-related college has made a rich and rare contribution to our great way of life. It has had much to do with saving our country from a materialistic secularism. A dual system of state and private education must be kept in balance. The two types mutually reinforce each other and the consequence to the social order is unsurpassed.

Christian business men must have character, courage, and enlightened intelligence to match this hour. No people "have ever had it quite so good" as in the United States. Christian business men must shoulder a big responsibility in order to keep our economy and way of life sound and growing. Not only our frailties, but every priceless principle we have is challenged. Our very foundations are being assaulted.

America is envied, feared, and hated as never before. We are judged by higher standards than any nation since ancient Israel. Superior nations and civilizations have fallen, even, before the assault of pagans and barbarians. At the close of World War II, we alone had the atomic bomb, an economy intact, the best equipped army, navy, and air force in all history; yet, we did not exploit this advantage. Instead, we put ourselves alongside the great powers, sheltering also the small nations in order to promote peace. We have spent as much money as the rest of the world has to bring all peoples up toward our standard of living. Yet, poor appreciation has been shown on the whole. Actually, we are fighting for our survival and cannot be certain of many friends in a showdown.

Why, then, this unfortunate position of our country before the world? Have we been unwise in lavishing our money upon so many nations? Should it have been more of a self-help program? Should we have dealt differently with the underprivileged? Have we spoiled them without lifting them? We have spent as much money on friend and foe as there is money in the rest of the world. Has it been too much the practice of presenting the gift without the giver?

There are, of course, the human frailties of envy on the part of weaker nations against the stronger, jealousy of the would-be leaders against the real leader. The United States is the leader of the free world. This makes it the shining target for communism. Communists have slandered and reviled us everywhere without regard for the truth.

The Christian business man must not only know our way of life well; he must be acquainted with the deceptive semantics and tactics of our enemy. With changing situations the connotation of words sometimes changes, even with a sound society. The Communist bloc does not mean what we mean by democracy, people's government, freedom, or peace. Elections are a farce. They believe in the god of fear and force to achieve their ends. They do not believe in peace between peoples, but in the prostrate quietude of a classless society in a world totally conquered by communism. The peace they offer to us is a cessation of hostilities so that they can strengthen themselves for the kill. They do not believe in a government "of and by" the people, but "for" the people by the elite of the communist bureaucrats.

Some of our people trifle with the words "left" and "right." Fascism and Communism are two forms of national socialism. Neither system allows free expression or self-determination. Moving toward the left today no longer has a good connotation. It no longer drives toward either Christian or democratic ideals. The point of departure and the distance traveled are important. The meaning of "left" as we know it today is a dangerous trend, and too far to the right could revert to an old form of totalitarianism. Dynamic conservatism is better for our day. It means conserving priceless values and adding new ones consistent with established principles of freedom.

Blazing out new trials that abolish old principles which have proved their worth through all changes is tragic folly. Holding to outmoded methods or practices that block real progress is also foolish. A democratic system of freedom is adequately flexible for all necessary change. To surrender impatiently safeguards to freedom in order to hasten security and distribution is to release the acids of subversion that will eat away all foundations of real security, freedom, and plenty in the end. Who wants jail security or slave equality? One form of the totalitarian system may provide some improvement over the conditions that prevail under another totalitarian system. Real lovers of freedom cannot be satisfied with even an improved lot under slavery.

PHILOSOPHY OF BUSINESS LAW[1]

Man has since the dawn of history sought to convert and use the earth's resources. He has in various ways related himself to his fellow man and to a god, or to God. In these three areas of endeavor man has accumulated the present know-how which we call civilization. Each generation not only preserves the store house of man's knowledge, but also adds some contributions to this great fund of knowledge. Within these three great areas of human knowledge—and they themselves are interrelated—there are many facets or divisions of information and know-how.

Generalizations, which we call principles, theories, or laws, have been discovered or formed in all the facets of our civilization; and man uses these principles as guides in human conduct. Laws may be physical laws of the arts and industries. They may be conventions, customs, habits, rituals, or legally enforceable rules which govern human conduct.

However, business law is concerned only with legal rules enforceable by our courts. Business law may apply to business relations in every facet of our civilization. Business law involves the definition of a man's business rights in his relations with his fellowman. Law defining business relations is not perfect; but if it were, we would still need courts to enforce human rights for the simple reason that men often will not choose to do right, even when they know their just relations with their fellow men. Business law is concerned with both the proper definition of human rights in business relations, and the enforcement of the properly determined relationships. In other words, business law is concerned with substantive rules which define human rights in business relations, and with court procedure needed to enforce business rights.

We have said something about what is business law. Now, what do we mean by the philosophy underlying business law?

In one of our dictionaries philosophy has been defined as "general laws that furnish the rational explanation of anything—practical wisdom." By philosophy of business law we mean the logic, reason, common sense, and the justice of rules of law. When one comes to understand the reasoning and justice underlying the

[1]An address to the Annual Meeting of Southern Region of the American Business Law Association, March 31, 1961, at Dallas, Texas.

rules of business law, he has acquired an appreciation and an ability of application of the principles of law to varying business situations. He is in a position to apply the rules of law to his every day practice of business. Without this understanding of the law, the study of law becomes a memory process devoid of any very dependable application to business, and a boredom.

My doctoral thesis submitted to Columbia University was a legal subject. In my first draft of the dissertation I submitted a wealth of case and statutory materials to my thesis committee. My committee returned my draft along with the statement that I had submitted only the raw materials for a dissertation and that I must present an exhaustive treatment of the philosophy underlying the law involved in my subject. Well, I met their requirements; and the American Institute of Accountants published my thesis in book form. What I did was simply present the historical settings and the common sense reasons underlying the phases of law in my subject.

Common law first began as case patterns developed from disputes among the tribesmen of the mediaeval villages of Europe. It was but natural that the tribesmen sitting as the Hundred Court sought to settle disputes of their people in some rational manner. The decisions of the Hundred Court became precedents or patterns to settle future disputes. These case patterns developed variations needed to afford justice in varying circumstances and served to define with much finesse the rights and obligations of the disputants.

Equity began in eleventh century England under the Norman kings hundreds of years after the commencement of the common law. It began at this time for the reason that the village courts, later the county courts, had not established equity precedents, and the Norman kings did not entrust this new type of law to the common law courts. Instead, they took it upon themselves to decide equity disputes in accordance with the king's good conscience. Both common law and equity are based, by and large, upon reason and common sense. Both systems are made up of case patterns, and equity provides a remedy where common law fails to give adequate justice.

Years ago at the annual banquet of the University of Texas Law School the late Judge Simkins, noted authority on the law of equity, was extolling to the audience the various attributes

of Perigrinus, the patron saint of the law students. This patron saint was a stuffed dummy, dressed in a tuxedo, high hat, and shoes, but giving a general resemblance of a huge bird with a tail like that of a fox. Judge Simkins came to explain the functions of Perigrinus' fox-like tail. He said, "The tail represents equity, and is used to brush out the injustices of the common law."

Common law, equity, and criminal law are founded largely upon the intentions of the parties involved. Punishments under criminal law emanate from wrongful intentions of the accused. Contracts with many subdivisions such as sales, agency, etc., become enforceable in ways reasonable persons would have intended. Torts are, in the main, intended financial injuries.

It is well known that our U. S. Constitution was a creation appropriate to the historical setting of the time. The three branches of our Government with balances and checks were no accident, but a natural development to insure against rule of a despot. The Great Charter signed by King John in 1215 at Runnymede, the Petition of Rights endorsed by Charles I in 1628, and the Bills of Rights established by William and Mary in 1689 form the content of the Bill of Rights of our U. S. Constitution. Through the years our Constitution has changed, partly by amendment, but largely by judicial interpretation, with the spirit of our people. Our Constitution has been adapted to the changing social and economic needs of our time.

Chief Justice John Marshall's decision in the Dartmouth College case in 1819 gave judicial protection to the sanctity of the private contract, and served to give confidence to private business enterprise and to encourage industrial and commercial expansion in decades to follow. This philosophy of free enterprise has persisted through the years except for limitations in certain well-defined areas.

In the case of businesses clothed with public interest, such as railroads and power companies, public interest has secured since Munn v. Illinois in 1877, a very definite control of rates and duties owed to the public. Whatever relief public utilities have been able to get has been secured under the Fifth and Fourteenth Amendments. These amendments have been used as shields against arbitrary encroachments of Federal and state governments upon public service companies.

Prior to the 1930's the Supreme Court held Federal and state

regulation of labor contracts to be an unwarranted infringement of private contracts. However, since the West Coast Hotel Company case, which upheld the power of the State of Washington to regulate wages and conditions of labor of minors and women, it has become well established law that governmental regulation of labor contracts is a proper exercise of government under our Constitution, and is not an infringement upon the Constitutional guarantees of the private contract.

Well, we could go on to review the growth of more governmental control of business since 1933, all of which is quite familiar to everyone of you. However, I do want to indicate further, with some examples, what is meant by the philosophy of business law.

Why are social agreements not enforceable? Common sense would tell one it is not practicable. Such matters are of little or no substantial importance and would not be considered by reasonable persons to be worth the trouble of litigation.

Why does the law of contracts require that there be both an offer and an acceptance in every contract? If this were not the rule, people would find themselves bound in contracts they never intended to form.

Why are illegal and fraudulent agreements unenforcable? Such agreements have been consistently held invalid as a protection to individuals, society in general, and the safety of our government.

Why under the Statute of Frauds first enacted in 1677 in England must certain types of contracts be in writing in order to be enforceable? These rules were developed and still persist to protect innocent persons from being trapped in agreements they did not make.

I know that these examples showing the reasons for rules of law are naive to you. We could go on almost indefinitely showing the historical settings and reasons behind rules of law. I shall mention only one or two more examples.

In the operation of the mediaeval fairs, which were international trading centers along the routes of transportation in England and Continental Europe, the merchants set up their own courts and rules of law to settle disputes between traders. Their rules became known as the Law Merchant. These rules were outside the bounds of the common law and equity, and it was only after centuries that the Law Merchant became absorbed by common

law. The Law Merchant gave us the fundamentals of our present laws governing checks and notes. One of these fundamental rules is that the innocent purchaser of a negotiable instrument may acquire greater rights than he would have under an ordinary contract. Why did the Law Merchant establish this rule? To encourage traders to accept bills of exchange freely in trade—to encourage trade. That is why we still follow the Law Merchant in the use of checks and notes; to make them more freely acceptable in the place of money; to encourage trade.

I want to give one more illustration of the historical setting and reason behind business law. The corporate enterprise, which has made possible man's highest standard of living in history, had its origin gradually. The perpetual existence idea was used by the tribal villages of Europe many hundreds of years ago. Those villages had continuous succession, and they carried on both governmental and economic functions for their communities.

Corporate charters were granted by the English crown for trade in foreign countries. These charters usually provided for both governmental and business powers. Such charters were issued by Richard II in 1391, Henry IV in 1425, Henry VIII in 1530, and Queen Elizabeth in 1568. The American Colonies, as is well known, were founded under corporate grants.

The idea of limited liability on the part of shareholders developed long after the origin of perpetual succession. During the mediaeval centuries, when Italian City States such as Genoa and Venice were in great prosperity and power, Italian merchants often formed partnership associations with sea captains for the transportation of goods to foreign ports and then the sale of the goods. Sea captains sometimes incurred indebtedness in these foreign ports; and the only recourse of the creditors was against the goods and ship in the foreign port. There was no international relationship whereby the merchant in the Italian City State could be held personally liable as a partner. This limited liability proved so desirable to the merchant partner that the system was next applied to domestic enterprises. The application of the principle of limited liability of a business owner came under the title of joint stock company limited. These limited companies were organized under articles of association approved by the government having power over the organizations.

The attributes of perpetual succession and limited liability of

shareholders have made possible the amassing of great accumulations of capital under highly perfected corporate organizations. Mass production—automation—under the corporate enterprise has made possible in America the highest standard of living in history.

Well, where does business law come in? The corporation is a creation of the law. It is the result of a contract between the incorporators and the state. Why do we have rules of law surrounding this creation of the law? For example, why prohibit dividends unless the company is solvent and has ample surplus to cover the dividends? The rights of creditors must be safeguarded since there is no personal liability of the stockholders for debts of the corporation. Many other examples and explanations of the law of corporations could be presented.

The philosophy of business law consists of the reason and common sense behind the rules of law. We can best understand the reasons for the rules if we first grasp the historical settings in which the rules were formed. Generally, rules of law are established in view of all parties affected, and the rules are laid down as a balance of fairness between all parties involved. This fairness is weighed from the views of each party affected. To understand law, one is compelled to take a broad perspective and see the reason for the rules from all angles. The use of brief statements of facts of cases followed by excerpts of key sentences of important decisions is, I find, a good way to impart to students an understanding of the reasons for the law and of the viewpoints of conflicting interests.

PROBLEMS IN REPORTING OF NON-PROFIT ORGANIZATIONS

PROFIT-SEEKING AND NON-PROFIT ORGANIZATIONS

Some of the problems of providing adequate information about the operations of philanthropic projects are pointed up by a comparison with profit-making enterprises. Organizations motivated by the possibility of profit quite obviously have as their objective the provision of benefits for their owners. By way of contrast the objective of any philanthropic organization is to provide a socially desirable service for members of certain segments of society. This difference in objective leads us to classify ventures in this area as non-profit organizations. In view of the fact that the service objective is substituted for the profit objective, their operational characteristics are significantly different from those of ordinary business ventures. The very existence of an enterprise under profit motivation depends upon an adequate effective demand for the commodity sold or service provided. This means that there must be the desire for the goods or services plus the purchasing power upon the part of those wishing to have them. Quite obviously this type of motivation would not work in the area of philanthropy. Dependence upon profit motivation would simply leave the goods or service unprovided for those within the social group who might need them most.

Let us now observe some of the operational characteristics logically associated with these organizations. In business enterprises capital is invested because a person sees the possibility of financial remuneration as a result of his investment. Revenues are realized through the distribution of goods or services in response to effective demand for these products of the business entity. In the philanthropic area the motivation for providing these funds must come from a significantly different source. The Federal tax laws have, in effect, encouraged general philanthropic giving. In making decisions relative to contributions to particular philanthropic entities, however, either a service motivation or legal requirement is a necessity. The person contributing the funds to a particular venture must realize a satisfaction by seeing that venture implemented and

the intended services performed or else he must be forced to contribute to it through the government taxing power.

Expenditures are made by philanthropic organizations for the purpose of providing the service which it was organized to perform. Recipients of the services may be determined in some instances entirely on the basis of need and/or desire for those services. In other instances where fees are charged, expenditures are made, at least to some extent, in response to effective demand for the services. Where such fees cover the total cost of providing the service, outlays can be thought of as being made wholly in response to the effective demand for the services of the enterprise. In that situation the organization falls within the definition of being philanthropic only because original capital was contributed in response to the desire to serve mankind.

Thus the basic difference between a business entity and a philanthropic organization may be characterized by observing that profit organizations are financed by owners, customers, and creditors while those in the philanthropic area are financed by constituent groups, "customers," and creditors. The extent of "customer financing" in the philanthropic area will vary from the point where it covers all costs of providing the services to the point where there is no consumer contribution.

ORGANIZATION AND CONTROL

Since philanthropic organizations by definition have no ownership equity interest, there can be no ownership control such as is found in enterprises operated for profit. In these organizations the constituency, to some extent, occupies a position roughly similar to that occupied by the owners of the profit-seeking entity, insofar as the general management and control of the organization are concerned. A board, the members of which are called trustees, directors, commissioners, or some other name, selected in any of several different ways, assumes somewhat the same responsibility as that normally delegated to the board of directors of a profit-seeking organization. It is important to note, however, that no investment is necessary for a person to occupy such a position, and that election is not necessarily based upon a commitment of funds by the electorate. This plan of control quite logically suggests that the board

may be inclined to act without giving full consideration to the wishes of the contributors.

In some organizations, the board selection procedure is such that the active managers of the entity can more or less control the personnel elected to the board. This is conducive to a "rubber stamp" or "figurehead" board, the decisions of which merely consist of approving actions taken by the active management group.

Another comparison which may be made is that the stockholders of a profit organization can express their dissatisfaction with the operation of the firm by voting the board of directors out of office or by selling their equities. The constituents of a voluntary non-profit entity can only voice their dissatisfaction by refusing to support the organization with their contributions. The extent of support, then, is, in reality, the "vote" which a constituent group has in influencing the general operation of a non-profit organization.

From the point of view of the public interest, the governing board of a non-profit organization should be active in representing the constituency in the formation of policies and in the appraisal of the efficiency of employed management. It is highly desirable that the group be objective, responsible, and experienced. However, if most individuals are basically self-centered, this condition may not necessarily prevail. Therefore it is desirable that the constituent group, made up of contributors and potential contributors, should be able to decide intelligently, and on the basis of adequate information, the extent to which they will support a non-profit organization.

Another factor supporting the importance which should be attached to external financial reporting is the fact that the boards of these organizations are not given the same charge upon selection as that given to the board of directors of a profit organization. The latter group is generally charged with the responsibility of employing the capital made available to it in such a way as to maintain the capital and to earn a return upon it. The board of a non-profit organization has no specific directive relative to this matter, and, in general, probably assumes less direct responsibility for representing the constituency than the board of a profit entity assumes for representing the stockholders.

From the preceding discussion, it can be observed that the

non-profit organization is, in a real sense, acting in a fiduciary capacity. Its objective is to provide a service which its constituent group feels is socially desirable. The organization is the agent chosen by the contributors to accomplish the mission in accordance with the wishes of the contributing group.

INSTRUMENTS OF CONTROL

Non-profit organizations also differ from profit enterprises in the ease with which they can be originated. The laws of most states are extremely lenient in their prerequisites for the formation of this type organization. Little more than a letterhead, a few interested persons, and an acceptable objective is necessary for the origination of an incorporated, non-profit entity. There can be no doubt that this lenience in our regulatory system has contributed to the multiplicity of health and welfare agencies now in existence, many of which perform the same or similar services.

The economic forces causing a non-profit entity to continue to exist or to go out of existence also are significantly different from those governing profit ventures. In the profit area, the ability to meet competition and still return a profit to the owners is, in the final analysis, the justification for the continued existence of a business. Since there is no profit objective in the non-profit area, there is no similar device which can be used as a basis for judgment of such an organization by the constituency. It is true that a non-profit organization must secure the "vote" of its constituency in the form of contributions. However, decisions to contribute or not to contribute must be made largely on the basis of "service plans" or "service records" of the organization as expressed in proposed budgets or a statement of past periods' revenues and expenditures. In the development of these budgets and statements, little has been done in the way of setting efficiency goals or of portraying an evaluation of the efficiency with which the services were performed. Prospective contributors therefore have had to make their decisions without the benefit of this important information.

It is true that some significance has been attached to the amount of "overhead" associated with the accomplishment of the service objective. This evaluation is based on the fact that the organization showing the largest portion of its contributed

dollar being used for the intended service is rendering the service with the least "non-service" use of funds. Financial statements, however, generally have tended to emphasize the difference between revenues and expenditures. An examination of published financial statements indicates that there has been little in the way of real, objective, appropriately organized, financial data upon which an interested group could make a logical decision.

It can also be surmised that since the non-profit organization acts in a stewardship capacity without a profit objective, it is logical that the control of expenditures should be vested basically in the authorizations found in a budget. Any departure from the budget plan appears to constitute a violation of the implied directives of the contributing constituency by operating management. These observations concerning the operating characteristics of non-profit organizations have significant implications for the accountant who is attempting to disclose pertinent financial facts about a non-profit organization.

NATURAL INCLINATIONS IN FINANCIAL STATEMENTS

The accounting profession for a long period of time has been known for its inclination toward conservative reporting. In the profit area this generally has involved attempting to make certain that assets and income were not overstated, and that liabilities and expenses were not understated. The background for such an attitude probably rests in the natural inclination of business management to want to show a "favorable" operating and equity position for most purposes other than tax reporting. In the non-profit area, the natural inclination of management often is quite different. For example, it has been observed that there often is the tendency to understate the position of the organization, especially in the health and welfare area. This probably is due to a feeling on the part of the internal management of these organizations that a poor financial position is more favorable to the solicitation of funds.

In view of the fact that excessive fund raising costs tend to be regarded as an undesirable operating characteristic, there often is an inclination to understate these expenditures. Similar tendencies also can be observed in the reporting of other supplementary outlays such as expenditures for administrative

purposes. Since the objective of such organizations is to render a service, there is also, quite logically, the tendency to classify as many expenditures as possible into "service implementation" classifications.

Although there may be a general inclination to understate the financial position of these organizations, there often are reasons for the tendency to overstate revenues. This inclination probably arises from the natural desire to look important and successful to the public and the supporting constituency. This type of bias in reporting can also be used as a means of showing a better relationship of revenue to fund raising costs. Such "window dressing" is sometimes also implemented by reporting amounts allocated to and from national headquarters as revenues and expenditures. Since these amounts would have been reflected as revenue at the time they were received from contributors, such a practice results in an inflated revenue figure, together with a similar overstatement of expenditures.

An organization's failure to use all funds contributed to it could well be interpreted to mean that all revenue was not needed to provide the proposed services. As a result there may be the tendency in some cases, to try to hide excessive revenue by appropriating such funds or using them without an adequate consideration of the real service benefits coming from their usage.

In the somewhat infrequent situations where public reports include quantitative statements of services rendered, there often is a tendency to overstate such services to give a favorable impression of the work done by the organization. The accountant seeking to portray a fair statement of the financial facts must be aware of all these tendencies.

One might well ask what can be done to improve the efficiency required of non-profit agencies. Actually some things are already being done. Los Angeles, for example, has established a social welfare department to control solicitations of its citizens by philanthropic organizations. This agency approves or rejects any proposal for solicitation within the city. It has the authority to require the disclosure of a condensed financial report audited by the agency with each solicitation made. The Department of Social Welfare in the state of New York has a similar authority for that state. Voluntary accrediting agencies such as the National Information Bureau

of New York City help to establish standards by requiring philanthropic organizations operating with their stamp of approval to meet certain basic requirements.

The accounting profession is currently engaged in a research project to define accounting and reporting principles for such organizations so that prospective contributors may be better informed of the operations of an organization before they commit funds to it. When these standards have been developed there will still remain the problem of having them accepted by or imposed upon the numerous philanthropic and welfare agencies seeking the support of the public through voluntary gifts or appropriations and tax revenues.

Previous Issues of
BAYLOR BUSINESS STUDIES

1. *New Random Sampling Numbers,* by H. N. Broom, Ph.D.
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